

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Charter Township of Highland</u>	County Oakland
Audit Date December 31, 2004	Opinion Date February 4, 2005	Date Accountant Report Submitted To State: March 21, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature <i>Plante & Moran, PLLC</i>			

Charter Township of Highland Oakland County, Michigan

**Financial Report
with Supplemental Information
December 31, 2004**

Charter Township of Highland

Contents

Report Letter	I
Management's Discussion and Analysis	2-6
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	7
Statement of Activities	8-9
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	10-11
Statement of Revenue, Expenditures, and Changes in Fund Balances	12-13
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Fiduciary Funds - Statement of Assets and Liabilities	15
Notes to Financial Statements	16-32
Required Supplemental Information	
Budgetary Comparison Schedule - General Fund	33
Budgetary Comparison Schedule - Major Special Revenue Funds	34-36
Other Supplemental Information	
Nonmajor Governmental Funds:	
Combining Balance Sheet	37-38
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	39-40



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Independent Auditor's Report

To the Board of Trustees
Charter Township of Highland
Oakland County, Michigan

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Charter Township of Highland as of and for the year ended December 31, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of Highland's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Charter Township of Highland as of December 31, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

As described in Note 13, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of December 31, 2004.

Plante & Moran, PLLC

February 4, 2005

A member of



A worldwide association of independent accounting firms

Charter Township of Highland

Management's Discussion and Analysis

Our discussion and analysis of the Charter Township of Highland's financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2004. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2004:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$85,000 this year.
- Total net assets related to the Township's governmental activities increased by approximately \$22,000. The General Fund fund balance increased by approximately \$96,000. These assets related to Highland Township's vigilance in keeping costs down. In addition, the following all contributed to bolstering the Township's assets: redirecting district court funds from the sheriff's budget into the General Fund, paying off the lease on the sub-station building, and an increase in the issuance of building permits and passports.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

Charter Township of Highland

Management's Discussion and Analysis (Continued)

The Township as a Whole

The following table shows, in a condensed format, the net assets as of the current year (in thousands of dollars):

Assets

Current assets	\$ 8,481,173
Noncurrent assets	<u>13,753,698</u>
Total assets	22,234,871

Liabilities

Current liabilities	977,205
Long-term liabilities	<u>10,612,966</u>
Total liabilities	<u>11,590,171</u>

Net Assets

Invested in capital assets - Net of related debt	6,177,709
Restricted	1,985,679
Unrestricted	<u>2,481,312</u>
Total net assets	<u>\$ 10,644,700</u>

The Township's combined net assets increased 0.3 percent from a year ago - increasing from \$10,610,063 to \$10,644,700. Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - totaled \$2,481,312, or about 35 percent of expenditures. Public safety continues to be the Township's greatest expense, about 41 percent of total expenditures.

Charter Township of Highland

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year:

Revenue

Program revenue:	
Charges for services	\$ 1,541,573
Operating grants and contributions	29,622
Capital grants and contributions	325,222
General revenue:	
Property taxes	3,402,708
State-shared revenue	1,383,732
Unrestricted investment earnings	95,667
Miscellaneous revenue	261,727
Total revenue	7,040,251

Program Expenses

General government	1,822,020
Public safety	2,886,238
Public works	1,281,500
Health and welfare	254,256
Community and economic development	27,215
Recreation and culture	734,383
Total program expenses	7,005,612

Change in Net Assets	\$ 34,639
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Governmental Activities

The Township's total governmental revenues totaled \$7,040,251 and were sufficient to fund the Township's current expenditures, including depreciation, despite decreases in state-shared revenue and payment in lieu of tax (PILOT) payments.

Total government-wide expenses totaled \$7,005,612 during the year. Increased expenditures in excess of prior year amounts included rising rates for liability and health insurance. To offset this increase, the Township required consultants to provide a scope and cost estimate prior to any needed project. As a result, this noticeably minimized their expenditures. Also, consulting with our insurance company's risk management experts on a multitude of issues provided the Township with preemptive measures that avoided costly lawsuits.

Comparative data is not available this year as this was the implementation year for Governmental Accounting Standards Board (GASB) Statement No. 34. The 2005 financial statements will offer comparative data.

Charter Township of Highland

Management's Discussion and Analysis (Continued)

The Township's Funds

Our analysis of the Township's major funds begins on page 10, following the government-wide financial statements. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2004 include the General Fund, the Capital Improvements Fund, the Library Building Fund, the Water Fund, the Refuse Fund, the Fire Operating Fund, and the Police Fund.

The General Fund pays for most of the Township's governmental services. The most significant are the general township administrative services, which incurred expenses of approximately \$2.4 million in 2004.

General Fund Budgetary Highlights

Over the course of the year, the Township amended the budget to take into account a reduction in anticipated state-shared revenue. This was a result of the downturn in the state's economy, which has and continues to be a significant factor in planning for the future. Township departments stayed below budget while not compromising existing services. This resulted in total expenditures approximately \$257,000 below budget. This allowed the General Fund's fund balance to increase from \$907,495 a year ago, to \$1,003,460 at December 31, 2004.

Capital Asset and Debt Administration

At the end of 2004, the Township had \$12,633,209 invested in a broad range of capital assets, including buildings, equipment, and water mains. Current year additions totaling \$230,239 included making necessary repairs to the Township offices and replacing fire equipment.

At the end of 2004, the Township had outstanding long-term debt of \$6,561,388. Included in that amount is approximately \$4.8 million in outstanding general obligation bonds whose proceeds were used for the construction of the Township Library building. The majority of the other \$1.6 million is made up of several outstanding special assessment bonds.

Economic Factors and Next Year's Budgets and Rates

In the spring of 2005, a portion of White Lake Road, from Harvey Lake/Milford Road to approximately 1,513 feet west of Highland Hills Drive, will be paved. Highland Township, Oakland County, and the Road Commission for Oakland County shared the engineering costs, while \$1,000,000 in federal funds went toward construction.

The Township is also participating with the State in construction of a 10-foot-wide paved safety path along the north side of M-59, from Livingston Road to the library. The Township is responsible for 20 percent of the \$560,000 project cost, or approximately \$112,000. Federal grants will cover the remainder of the project costs.

Charter Township of Highland

Management's Discussion and Analysis (Continued)

While it is unlikely that the Township will be in a position to make road improvements of its own, we will make every effort to contribute toward residentially initiated projects that meet RCOC standards.

Due to State law requirements, the Township will revisit our master land use plan and examine our zoning ordinances. The Township's hope is to improve upon and simplify these documents. When setting aside funds for this process, it became apparent our Planning Commission needed to have its own budget. As a result, one was created.

One important goal for the Township in 2005 is to update its recreation plan. Work on this document will begin mid-year.

As part of its mining permit obligations, the Levy Corporation is permitting construction of a municipal wastewater treatment plant and water system improvements. The Township will be facilitating planning meetings with property owners throughout the Township to coordinate sanitary sewer and water main extensions, which will likely be constructed in 2006-2007. The budget anticipates costs for consulting services, advertising, and publication costs needed to facilitate progress.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

Charter Township of Highland

Statement of Net Assets December 31, 2004

	Primary Government - Governmental Activities	Component Units
Assets		
Cash and investments (Note 3)	\$ 5,975,443	\$ 43,738
Due from other governmental units	250,323	-
Taxes receivable	1,767,496	-
Refuse assessment receivable	388,763	-
Special assessment receivable	1,120,489	-
Prepaid expenses	99,148	-
Capital assets (Note 5)	12,633,209	-
Total assets	22,234,871	43,738
Liabilities		
Accounts payable	352,068	-
Retainage payable	32,823	-
Accrued and other liabilities	126,722	-
Deferred revenue (Note 4)	4,517,170	-
Noncurrent liabilities (Note 7):		
Due within one year	465,592	-
Due in more than one year	6,095,796	-
Total liabilities	11,590,171	-
Net Assets		
Invested in capital assets - Net of related debt	6,177,709	-
Restricted (Note 12):		
Debt service	167,701	-
Capital projects	89,012	-
Police and fire operations	608,477	-
Special assessment	1,120,489	-
Unrestricted	2,481,312	43,738
Total net assets	<u>\$ 10,644,700</u>	<u>\$ 43,738</u>

Charter Township of Highland

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 1,822,020	\$ 155,067	\$ -	\$ -
Public safety	2,886,238	257,199	18,822	27,718
Public works - Refuse collection and roads	1,281,500	1,092,307	-	157,621
Health and welfare - Social Services and Senior Center	254,256	11,295	10,800	-
Community and economic development	27,215	24,835	-	90,988
Recreation and culture	734,383	870	-	48,895
Total primary government	<u><u>\$ 7,005,612</u></u>	<u><u>\$ 1,541,573</u></u>	<u><u>\$ 29,622</u></u>	<u><u>\$ 325,222</u></u>
Component units - Downtown Development Authority	<u><u>\$ 25,128</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Miscellaneous				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended December 31, 2004

Net (Expense) Revenue and Changes in Net Assets	
Primary Government	Component Units
\$ (1,666,953)	\$ -
(2,582,499)	-
(31,572)	-
(232,161)	-
88,608	-
(684,618)	-
(5,109,195)	-
-	(25,128)
3,402,708	13,428
1,383,732	-
95,667	413
261,727	17,267
5,143,834	31,108
34,639	5,980
10,610,061	37,758
\$ 10,644,700	\$ 43,738

Charter Township of Highland

	Major Funds			
	Capital Improvement Funds			
	General	Capital Improvement	Library Building	Water
Assets				
Cash and investments (Note 3)	\$ 905,361	\$ 800,804	\$ 298,549	\$ 159,941
Due from other governmental units	250,323	-	-	-
Due from other funds (Note 6)	118,650	-	-	-
Taxes receivable	212,804	-	229,871	-
Refuse assessment receivable	-	-	-	-
Special assessment receivable	-	-	-	939,659
Prepaid expenses and other assets	-	-	-	-
Total assets	<u>\$ 1,487,138</u>	<u>\$ 800,804</u>	<u>\$ 528,420</u>	<u>\$ 1,099,600</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 42,126	\$ -	\$ -	\$ 7,123
Retainage payable	-	-	32,823	-
Accrued payroll and related taxes	13,378	-	-	-
Due to other funds (Note 6)	-	53,758	-	64,892
Deferred revenue	428,174	-	460,710	940,127
Total liabilities	483,678	53,758	493,533	1,012,142
Fund Balances				
Reserved for:				
Capital projects	-	-	-	-
Debt service	-	-	20,644	-
Unreserved, reported in:				
General Fund	1,003,460	-	-	-
Capital Project Funds	-	747,046	14,243	87,458
Special Revenue Funds	-	-	-	-
Total fund balances	1,003,460	747,046	34,887	87,458
Total liabilities and fund balances	<u>\$ 1,487,138</u>	<u>\$ 800,804</u>	<u>\$ 528,420</u>	<u>\$ 1,099,600</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds

Special assessment receivables are expected to be collected over several years, and are not available to pay for current year expenditures

Compensated absences are included as a liability in governmental activities

Long-term liabilities and accrued interest are not due and payable in the current period and are not reported in the funds

Net assets of governmental activities

**Governmental Funds
Balance Sheet
December 31, 2004**

Major Funds			Other Nonmajor Governmental Funds	Total Governmental Funds
Special Revenue Funds				
Refuse	Fire Operating	Police		
\$ 1,046,005	\$ 649,505	\$ 1,573,906	\$ 541,372	\$ 5,975,443
-	-	-	-	250,323
-	-	-	-	118,650
-	331,934	992,887	-	1,767,496
388,763	-	-	-	388,763
-	-	-	180,830	1,120,489
-	-	-	99,148	99,148
<u>\$ 1,434,768</u>	<u>\$ 981,439</u>	<u>\$ 2,566,793</u>	<u>\$ 821,350</u>	<u>\$ 9,720,312</u>
\$ 58,346	\$ 8,703	\$ 235,770	\$ -	\$ 352,068
-	-	-	-	32,823
-	29,545	-	-	42,923
-	-	-	-	118,650
962,549	667,879	1,997,858	167,115	5,624,412
1,020,895	706,127	2,233,628	167,115	<u>\$ 6,170,876</u>
-	-	-	89,012	\$ 89,012
-	-	-	148,938	169,582
-	-	-	-	1,003,460
-	-	-	271,845	1,120,592
413,873	275,312	333,165	144,440	1,166,790
413,873	275,312	333,165	654,235	3,549,436
<u>\$ 1,434,768</u>	<u>\$ 981,439</u>	<u>\$ 2,566,793</u>	<u>\$ 821,350</u>	
				12,633,209
				1,107,242
				(49,092)
				<u>(6,596,095)</u>
				<u>\$ 10,644,700</u>

Charter Township of Highland

	Major Funds			
	Capital Improvement Funds			
	Capital			
	General	Improvement	Library Building	Water
Revenue				
General property taxes	\$ 411,844	\$ -	\$ 460,007	\$ -
Licenses and permits	256,189	-	-	-
Federal sources	90,988	-	-	-
State sources	1,394,532	48,895	-	-
Local sources	-	-	-	-
Charges for services	260,213	-	-	-
Special assessments	-	-	-	157,621
Interest and other revenue	156,006	63,867	2,507	12,907
Total revenue	2,569,772	112,762	462,514	170,528
Expenditures				
Legislative	21,967	-	-	-
Supervisor's office	154,519	-	-	-
Clerk's office	153,825	-	-	-
Treasurer's office	134,892	-	-	-
Accounting department	51,714	-	-	-
General government	939,363	-	-	-
Social services	123,253	-	-	-
Senior center	131,003	-	-	-
Refuse disposal	-	-	-	-
Cemetery	27,215	-	-	-
Law enforcement	23,283	-	-	-
Building, planning, and assessing	590,225	-	-	-
Zoning Board of Appeals	10,084	-	-	-
Police services and fire department	-	-	-	-
Community parks	22,761	13,021	-	-
Debt service	-	-	468,040	124,898
Professional services	-	5,178	-	-
Capital outlay and other	-	133,999	41,605	12,215
Total expenditures	2,384,104	152,198	509,645	137,113
Excess of Revenue Over (Under) Expenditures	185,668	(39,436)	(47,131)	33,415
Other Financing Sources (Uses)				
Transfers from other funds	10,297	-	-	-
Transfers to other funds	(100,000)	-	-	-
Total other financing sources (uses)	(89,703)	-	-	-
Net Change in Fund Balances	95,965	(39,436)	(47,131)	33,415
Fund Balances - Beginning of year	907,495	786,482	82,018	54,043
Fund Balances - End of year	\$ 1,003,460	\$ 747,046	\$ 34,887	\$ 87,458

The Notes to Financial Statements are an
Integral Part of this Statement.

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances
Year Ended December 31, 2004

Major Funds			Other Nonmajor Governmental Funds	Total Governmental Funds
Special Revenue Funds				
Refuse	Fire Operating	Police		
\$ -	\$ 634,071	\$ 1,896,786	\$ -	\$ 3,402,708
-	-	-	-	256,189
-	190	-	-	91,178
-	-	2,822	-	1,446,249
-	-	16,000	-	16,000
1,025,976	-	-	-	1,286,189
-	-	-	75,512	233,133
76,502	13,748	184,324	6,711	516,572
1,102,478	648,009	2,099,932	82,223	7,248,218
-	-	-	-	21,967
-	-	-	-	154,519
-	-	-	-	153,825
-	-	-	-	134,892
-	-	-	-	51,714
-	-	-	-	939,363
-	-	-	-	123,253
-	-	-	-	131,003
1,048,043	-	-	-	1,048,043
-	-	-	-	27,215
-	-	-	-	23,283
-	-	-	-	590,225
-	-	-	-	10,084
-	534,979	2,191,514	-	2,726,493
-	-	-	-	35,782
-	-	-	70,446	663,384
-	-	-	-	5,178
-	-	-	198,472	386,291
1,048,043	534,979	2,191,514	268,918	7,226,514
54,435	113,030	(91,582)	(186,695)	21,704
-	-	-	121,000	131,297
(10,156)	(21,141)	-	-	(131,297)
(10,156)	(21,141)	-	121,000	-
44,279	91,889	(91,582)	(65,695)	21,704
369,594	183,423	424,747	719,930	3,527,732
\$ 413,873	\$ 275,312	\$ 333,165	\$ 654,235	\$ 3,549,436

Charter Township of Highland

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2004

Net Change in Fund Balances - Total Governmental Funds	\$	21,704
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	230,239
Depreciation	(360,352)

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(233,131)
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	466,504
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Accrued interest is an expenditure in the statement of activities, but not in the governmental funds	(83,800)
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Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	(6,525)
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Change in Net Assets of Governmental Activities	\$	<u>34,639</u>
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Charter Township of Highland

Fiduciary Funds Statement of Assets and Liabilities December 31, 2004

	Special Escrow Fund	Current Tax Fund	Total Agency Funds
Assets			
Cash and cash equivalents	\$ 558,295	\$ 2,362,067	\$ 2,920,362
Cash and investments held on behalf of library	<u>287,146</u>	<u>-</u>	<u>287,146</u>
Total assets	<u>\$ 845,441</u>	<u>\$ 2,362,067</u>	<u>\$ 3,207,508</u>
Liabilities			
Due to other governmental units	\$ 21,923	\$ -	\$ 21,923
Performance bonds payable and other liabilities	823,518	-	823,518
Tax collections distributable	<u>-</u>	<u>2,362,067</u>	<u>2,362,067</u>
Total liabilities	<u>\$ 845,441</u>	<u>\$ 2,362,067</u>	<u>\$ 3,207,508</u>

Charter Township of Highland

Notes to Financial Statements December 31, 2004

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Charter Township of Highland (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Charter Township of Highland:

Reporting Entity

The Charter Township of Highland is governed by an elected seven-member Board of Trustees. The accompanying financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the Township's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Township (see discussion below for description).

Discretely Presented Component Units - The Downtown Development Authority (DDA) is reported within the component unit column in the combined financial statements. It is reported in a separate column to emphasize that it is legally separate from the Township. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, consisting of 11 individuals, is approved by the Township Board. In addition, the DDA's budget is subject to approval by the Township.

The Brownfield Development Authority (BRDA) was created, pursuant to Public Act 381 of 1996, to provide revitalization of environmentally distressed areas within the Township. The BRDA will be funded primarily by property tax revenue captures. Currently, there is no financial activity with the BRDA, nor have members of the board been appointed.

Charter Township of Highland

Notes to Financial Statements December 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Township does not participate in any business-type activities. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

Charter Township of Highland

Notes to Financial Statements December 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Capital Improvements Fund - The Capital Improvements Fund is used by the Township to record the activity of various Township improvement projects.

Library Building Fund - The Library Building Fund was set up by the Township to account for the construction of, and the related improvements to, the library building, as well as the debt service related to the Unlimited Tax General Obligation Bonds that were issued for the Library's original construction.

Water Fund - The Water Fund was set up by the Township to account for the debt service related to the special assessments for the construction of water mains.

Refuse Fund - The Refuse Fund is used by the Township to account for the results of operations that provide refuse collection services to citizens that are financed by a user charge for the provision of those services.

Fire Operating Fund - The Fire Operating Fund is used by the Township to account for the assets and operations of the fire department that are financed primarily by property taxes.

Charter Township of Highland

Notes to Financial Statements December 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Police Fund - The Police Fund is used by the Township to account for the results of operations that provide public safety police services to the Township through the Oakland County Sheriff's Department that are financed primarily by property taxes.

Additionally, the Township reports the following fund types:

Agency Funds - The Agency Funds account for assets held by the Township in a trustee capacity or as an agent for individuals, employees, organizations, other governments, or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Township's 2003 tax is levied and collectible on December 1, 2003 and is recognized as revenue in the year ended December 31, 2004, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2003 taxable valuation of the Township totaled \$674.6 million (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 0.6000 mills for operating purposes, a combined 0.6800 mills for library debt service, 0.9471 mills for fire operations, and 2.8331 mills for police operations. This resulted in approximately \$405,000 for operating, \$460,000 for library building and debt service, \$634,000 for fire operations, and \$1,897,000 for police operations. These amounts are recognized in the respective General, Special Revenue, and Capital Projects Funds financial statements as tax revenue.

Charter Township of Highland

Notes to Financial Statements December 31, 2004

Note I - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, bank investment pools, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water mains), are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

During the current year, there was no interest expense that was capitalized as part of the cost of assets under construction.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building improvements	50 years
Library building	50 years
Furniture and equipment	3 to 20 years
Water mains	50 years

Charter Township of Highland

Notes to Financial Statements December 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Charter Township of Highland

Notes to Financial Statements December 31, 2004

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2004 is as follows:

Shortfall as of December 31, 2003	\$ (99,338)
Current year building permit revenue	256,189
Related expenses:	
Direct costs	\$ (236,110)
Estimated indirect costs	<u>(44,464)</u>
Total construction code expenses	<u>(280,574)</u>
Shortfall as of December 31, 2004	<u>\$ (123,723)</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Township has designated four banks for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above.

Charter Township of Highland

Notes to Financial Statements December 31, 2004

Note 3 - Deposits and Investments (Continued)

The Charter Township of Highland's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and cash equivalents	\$ 3,528,564	\$ 2,759,836	\$ 6,288,400	\$ 43,738
Investments	2,446,879	447,672	2,894,551	-
Total	<u>\$ 5,975,443</u>	<u>\$ 3,207,508</u>	<u>\$ 9,182,951</u>	<u>\$ 43,738</u>

The breakdown between deposits and investments for the Township is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 7,469,352	\$ 43,738
Investments in bank investment pools	1,364,330	-
Investments in interlocal agreement	349,070	-
Petty cash or cash on hand	199	-
Total	<u>\$ 9,182,951</u>	<u>\$ 43,738</u>

Deposits

The bank balance of the Township's deposits is \$7,612,840, of which \$400,000 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The component units' deposits had a bank balance of \$43,738, of which all was covered by federal depository insurance.

Charter Township of Highland

Notes to Financial Statements December 31, 2004

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unearned	Unavailable	Total
Property taxes	\$ 4,517,170	\$ 940,127	\$ 5,457,297
Special assessments	-	167,115	167,115
Total	<u>\$ 4,517,170</u>	<u>\$ 1,107,242</u>	<u>\$ 5,624,412</u>

Note 5 - Capital Assets

Capital asset activity of the Township's governmental activities is summarized as follows:

	Balance January 1, 2004	Additions	Disposals and Adjustments	Balance December 31, 2004
Capital assets not being depreciated - Land	\$ 2,332,983	\$ -	\$ -	\$ 2,332,983
Capital assets being depreciated:				
Buildings and improvements	2,846,462	78,463	-	2,924,925
Library building	5,803,742	64,373	-	5,868,115
Furniture and equipment	1,847,695	76,188	-	1,923,883
Water mains	<u>1,587,885</u>	<u>11,215</u>	<u>-</u>	<u>1,599,100</u>
Subtotal	12,085,784	230,239	-	12,316,023
Accumulated depreciation:				
Buildings and improvements	723,534	92,089	-	815,623
Library building	88,691	116,784	-	205,475
Furniture and equipment	809,545	120,256	-	929,801
Water mains	<u>33,675</u>	<u>31,223</u>	<u>-</u>	<u>64,898</u>
Subtotal	<u>1,655,445</u>	<u>360,352</u>	<u>-</u>	<u>2,015,797</u>
Net capital assets being depreciated	<u>10,430,339</u>	<u>(130,113)</u>	<u>-</u>	<u>10,300,226</u>
Net capital assets	<u>\$ 12,763,322</u>	<u>\$ (130,113)</u>	<u>\$ -</u>	<u>\$ 12,633,209</u>

Charter Township of Highland

Notes to Financial Statements December 31, 2004

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 77,304
Public safety	106,313
Public works	31,223
Recreation and culture	<u>145,512</u>

Total governmental activities	<u>\$ 360,352</u>
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Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Capital Projects Funds - Water Fund	\$ 64,892
General Fund	Capital Improvement Fund	<u>53,758</u>
	Total interfund balance	<u>\$ 118,650</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Charter Township of Highland

Notes to Financial Statements December 31, 2004

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Special Revenue Funds - Fire Capital Fund	\$ 60,000
General Fund	Special Revenue Funds - Road Fund	40,000
Special Revenue Funds - Fire Operating Fund	General Fund	141
Special Revenue Funds - Fire Operating Fund	Special Revenue Funds - Fire Capital Fund	21,000
Special Revenue Funds - Refuse Fund	General Fund	10,156
Total interfund transfers		<u>\$ 131,297</u>

The transfers from the General Fund and the Fire Operating Fund to the Fire Capital Fund are for the purchase of capital assets. The transfer from the General Fund to the Road Fund is to finance road maintenance and improvements. The transfer from the Refuse Fund to the General Fund is to pay for administrative expenses.

Note 7 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Charter Township of Highland

Notes to Financial Statements December 31, 2004

Note 7 - Long-term Debt (Continued)

Long-term obligation activity is summarized as follows:

	Remaining Interest Rate Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
General obligation bonds:					
Library Building:					
Original issue \$5,765,000					
Maturing through 2019	4.60%	\$ 5,080,000	\$ (240,000)	\$ 4,840,000	\$ 250,000
Special assessment bonds:					
Highland Lk. Augmentation Well					
Original issue \$140,000					
Maturing through 2012	5.00% - 6.30%	140,000	(15,000)	125,000	15,000
Kellogg Taggett Augmentation Well:					
Original issue \$170,000					
Maturing through 2011	6.20% - 6.80%	145,000	(15,000)	130,000	15,000
Lakeview Lane Road Improvement:					
Original issue \$85,000					
Maturing through 2007	5.25% - 5.60%	34,000	(8,500)	25,500	8,500
Woodruff Lake Augmentation Well:					
Original issue \$77,000					
Maturing through 2010	7.50% - 9.00%	58,000	(8,000)	50,000	8,000
M-59 Water Main:					
Original issue \$1,060,000					
Maturing through 2016	3.63% - 4.70%	980,000	(80,000)	900,000	75,000
S. Milford Water Main:					
Original issue \$170,000					
Maturing through 2013	3.25% - 4.45%	170,000	-	170,000	10,000
Other long-term obligations:					
Installment purchase obligations:					
Fire vehicle:					
Original issue \$164,103					
Maturing through 2009	4.63%	110,000	(15,330)	94,670	15,330
Fire vehicle:					
Original issue \$210,897					
Maturing through 2009	4.63%	140,000	(19,670)	120,330	19,670
Land contract:					
Original issue \$125,000					
Maturing through 2004	6.00%	67,567	(67,567)	-	-
Compensated absences		42,567	6,525	49,092	49,092
Property tax appeals		54,233	2,563	56,796	-
Total long-term debt		<u>\$ 7,021,367</u>	<u>\$ (459,979)</u>	<u>\$ 6,561,388</u>	<u>\$ 465,592</u>

Charter Township of Highland

Notes to Financial Statements December 31, 2004

Note 7 - Long-term Debt (Continued)

The special assessment bonds represent the financing of public improvements that benefit specific districts; these districts are specially assessed, at least in part, for the cost of the improvements. There is approximately \$1,120,489 of special assessments receivable in the future in the Capital Projects Funds - Lakeview Lane Improvements, Woodruff Lake, Kellogg Taggett, Highland Lake, and Water; in addition, the Township has \$195,000 set aside in these funds for the repayment of the bonds. The amount of receivables delinquent at December 31, 2004 is not significant. Under Michigan law, the Township is secondarily liable for payment of these bonds.

The compensated absences represent the estimated liability to be paid to employees under the Township's sick and vacation pay policy. Under the Township's policy, employees earn sick and vacation time based on time of service with the Township.

In November 1999, the State Tax Commission approved revised personal property tax tables for utilities. The revised tables could affect taxes collected from 1997 to present due to local units of government continuing to use the personal property tax tables in effect prior to 1999. The issue was the subject of a lawsuit brought by several units of government against the State Tax Commission, challenging the constitutionality of the new utility personal property tax tables. In April 2002, the revised tables were upheld by the court.

During 2003, the tax tables were again upheld on appeal. The amounts paid to the Township in excess of the approved amounts using the new tables would potentially need to be refunded to the utility companies. This could result in refunds, including interest, of approximately \$57,000. Appeals are still being undertaken by taxing authorities. Therefore, the potential refund related to the governmental funds has been recorded as a long-term liability on the government-wide statement of net assets at December 31, 2004.

Interest expense for the year ended December 31, 2004 totaled approximately \$393,000.

Charter Township of Highland

Notes to Financial Statements December 31, 2004

Note 7 - Long-term Debt (Continued)

The annual debt service requirements to service all debt outstanding (excluding compensated absences and property tax appeals), including both principal and interest, as of December 31, 2004 are as follows:

	Principal	Interest	Total
2005	\$ 416,500	\$ 289,026	\$ 705,526
2006	441,500	269,598	711,098
2007	466,500	248,943	715,443
2008	468,000	227,204	695,204
2009	491,500	205,192	696,692
2010-2014	2,176,500	706,982	2,883,482
2015-2019	1,995,000	221,497	2,216,497
Total	<u>\$ 6,455,500</u>	<u>\$ 2,168,442</u>	<u>\$ 8,623,942</u>

Note 8 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for workers' compensation and medical benefit claims, and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The Michigan Municipal Risk Management Authority state pool program operates as a common risk-sharing management program. Member premiums are used to purchase Authority-underwritten excess insurance coverage and to pay member claims in excess of deductible amounts.

Charter Township of Highland

Notes to Financial Statements December 31, 2004

Note 9 - Defined Contribution Retirement Plan

The Township provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after six months from the date of employment. As established by the Township Board of Trustees, the Township contributes 15 percent of employees' gross earnings. The Township's contributions for each employee are immediately fully vested. In accordance with these requirements, the Township contributed \$114,731 during the current year. There are no provisions in the plan for employee contributions.

Note 10 - Postretirement Benefits

The Township provides health care benefits to all full-time employees upon retirement in accordance with the Township Board's policy. Currently, five retirees are eligible. In addition, 20 active employees may be entitled to benefits upon retirement. Expenditures for postretirement health care benefits are recognized as the insurance premiums become due; during the year, this amounted to \$29,174.

Note 11 - Budgetary Information

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)." All annual appropriations lapse at fiscal year end; encumbrances are not included as expenditures. During the year, the budget was amended in a legally permissible manner.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Charter Township of Highland

Notes to Financial Statements December 31, 2004

Note 11 - Budgetary Information (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Charter Township of Highland incurred expenditures that were in excess of the amounts budgeted, as follows:

	Budget	Actual
General Fund - Social services	\$ 50,272	\$ 123,253
General Fund - Building	231,244	236,110
General Fund - Transfers to other funds	100,000	100,733
Special Revenue Funds - Fire Operating Fund - Transfers to other funds	21,000	21,141
Total	<u>\$ 402,516</u>	<u>\$ 481,237</u>

Note 12 - Restricted Net Assets

Fund balances of governmental funds have been restricted for the following purposes:

Police	\$ 333,165
Fire operations	275,312
Debt service:	
Library	20,644
Lakeview Lane improvement	11,598
Woodruff Lake	31,026
Kellogg-Taggart	57,033
Highland Lake Well	47,400
Capital projects:	
Woodruff Lake	8,117
Kellogg-Taggart	31,360
Highland Lake Well	48,357
Peninsula Lake Weed Harvesting	1,178
Total restricted net assets	<u>\$ 865,190</u>

Charter Township of Highland

Notes to Financial Statements December 31, 2004

Note 13 - Accounting and Reporting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Township has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The Township has elected to implement both the general provisions of the statement and the retroactive reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Township's activities
- A change in the fund financial statements to focus on the major funds
- Capital assets in the statement of net assets totaling approximately \$12.6 million that would previously have been reported in the General Fixed Assets Account Group
- The governmental activities column includes bonds and other long-term obligations totaling \$5.6 million previously reported in the General Long-term Debt Account Group

Note 14 - Designations

Unreserved fund balances have been designated for the following purposes:

Designated For	Funds								Total
	General	Capital Improvement	Library Building	Water	Refuse	Fire Operating	Police	Nonmajor	
Subsequent year's expenditures	\$ 36,872	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 36,872
Future years' expenditures	90,284	199,222	-	-	-	-	599	143,152	433,257
Total designated	127,156	199,222	-	-	-	-	599	143,152	470,129
Undesignated	876,304	547,825	14,243	87,458	413,873	275,312	332,566	271,845	2,819,426
Total unreserved	\$ 1,003,460	\$ 747,047	\$ 14,243	\$ 87,458	\$ 413,873	\$ 275,312	\$ 333,165	\$ 414,997	\$ 3,289,555

Required Supplemental Information

Charter Township of Highland

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
General property taxes	\$ 415,260	\$ 415,260	\$ 411,844	\$ (3,416)
Licenses and permits	205,500	226,500	256,189	29,689
Federal sources	-	29,636	90,988	61,352
State sources:				
State grants	11,800	11,800	10,800	(1,000)
State-shared revenue	1,500,000	1,500,000	1,383,732	(116,268)
Charges for services	191,500	203,985	260,213	56,228
Interest	10,000	10,000	27,895	17,895
Other revenue	46,000	46,600	128,111	81,511
Transfer from other funds	10,156	10,156	10,297	141
Total revenue	2,390,216	2,453,937	2,580,069	126,132
Expenditures				
Legislative	23,043	23,043	21,967	1,076
Supervisor's office	162,963	162,963	154,519	8,444
Clerk's office	155,366	155,366	153,825	1,541
Treasurer's office	143,227	143,227	134,892	8,335
Accounting department	54,788	54,788	51,714	3,074
General government	1,066,196	1,197,003	939,363	257,640
Social services	15,154	50,272	123,253	(72,981)
Senior center	148,106	136,180	131,003	5,177
Cemetery	27,660	27,660	27,215	445
Law enforcement	23,315	23,315	23,283	32
Building	210,243	231,244	236,110	(4,866)
Planning	171,306	223,586	202,046	21,540
Assessing	149,548	152,387	152,069	318
Zoning Board of Appeals	13,140	13,140	10,084	3,056
Community parks	28,700	34,740	22,761	11,979
Transfers to component unit	12,500	12,500	-	12,500
Transfers to other funds	100,000	100,000	100,000	-
Total expenditures	2,505,255	2,741,414	2,484,104	257,310
Excess of Revenue Over (Under)				
Expenditures	(115,039)	(287,477)	95,965	383,442
Fund Balance - Beginning of year	907,495	907,495	907,495	-
Fund Balance - End of year	<u>\$ 792,456</u>	<u>\$ 620,018</u>	<u>\$ 1,003,460</u>	<u>\$ 383,442</u>

Charter Township of Highland

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Refuse Fund Year Ended December 31, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Charges for services	\$ 1,015,560	\$ 1,015,560	\$ 1,025,976	\$ 10,416
Interest income	10,000	10,000	10,171	171
Other	68,860	68,860	66,331	(2,529)
Total revenue	1,094,420	1,094,420	1,102,478	8,058
Expenditures				
General government - Refuse collection	1,058,160	1,058,160	1,048,043	10,117
Public works - Transfers to other funds	10,156	10,156	10,156	-
Total expenditures	1,068,316	1,068,316	1,058,199	10,117
Excess of Revenue Over Expenditures	26,104	26,104	44,279	18,175
Fund Balance - Beginning of year	369,594	369,594	369,594	-
Fund Balance - End of year	<u>\$ 395,698</u>	<u>\$ 395,698</u>	<u>\$ 413,873</u>	<u>\$ 18,175</u>

Charter Township of Highland

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Fire Operating Fund Year Ended December 31, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
General property taxes	\$ 638,913	\$ 638,913	\$ 634,071	\$ (4,842)
Federal grants	-	-	190	190
Interest	6,000	6,000	6,395	395
Other revenue	10,000	10,000	7,353	(2,647)
Total revenue	654,913	654,913	648,009	(6,904)
Expenditures				
Fire department	633,338	633,338	534,979	98,359
Transfers to other funds	21,000	21,000	21,141	(141)
Total expenditures	654,338	654,338	556,120	98,218
Excess of Revenue Over Expenditures	575	575	91,889	91,314
Fund Balance - Beginning of year	183,423	183,423	183,423	-
Fund Balance - End of year	<u>\$ 183,998</u>	<u>\$ 183,998</u>	<u>\$ 275,312</u>	<u>\$ 91,314</u>

Charter Township of Highland

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Police Fund Year Ended December 31, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
General property taxes	\$ 1,911,206	\$ 1,911,206	\$ 1,896,786	\$ (14,420)
State grants	5,000	5,000	2,822	(2,178)
Local grants	16,000	16,000	16,000	-
Interest	20,000	20,000	19,137	(863)
Other revenue	<u>259,732</u>	<u>259,732</u>	<u>165,187</u>	<u>(94,545)</u>
Total revenue	2,211,938	2,211,938	2,099,932	(112,006)
Expenditures - Police expenditures	<u>2,211,938</u>	<u>2,222,537</u>	<u>2,191,514</u>	<u>31,023</u>
Excess of Expenditures Over Revenue	-	(10,599)	(91,582)	(80,983)
Fund Balance - Beginning of year	<u>424,748</u>	<u>424,747</u>	<u>424,747</u>	-
Fund Balance - End of year	<u><u>\$ 424,748</u></u>	<u><u>\$ 414,148</u></u>	<u><u>\$ 333,165</u></u>	<u><u>\$ (80,983)</u></u>

Other Supplemental Information

Charter Township of Highland

Assets	Special Revenue Funds		
	Road	Fire Capital	Postemployment Benefits
Cash and investments	\$ 43,152	\$ 173,089	\$ 100,000
Special assessment receivable	-	-	-
Prepaid expenses and other assets	-	97,860	1,288
Total assets	<u>\$ 43,152</u>	<u>\$ 270,949</u>	<u>\$ 101,288</u>
Liabilities and Fund Balances			
Liabilities - Deferred revenue	\$ -	\$ -	\$ -
Fund Balances			
Reserved for capital outlay	-	-	-
Reserved for debt service	-	-	-
Designated for subsequent year's budget	-	-	-
Designated for future years' projects	43,152	-	101,288
Unreserved and undesignated	-	270,949	-
Total fund balances	<u>43,152</u>	<u>270,949</u>	<u>101,288</u>
Total liabilities and fund balances	<u>\$ 43,152</u>	<u>\$ 270,949</u>	<u>\$ 101,288</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2004**

Capital Projects Funds					Total Nonmajor Governmental Funds
Lakeview Lane Improvement	Woodruff Lake	Kellogg-Taggett	Highland Lake Well	Peninsula Lake Weed Harvesting	
\$ 11,031	\$ 36,600	\$ 83,066	\$ 91,576	\$ 2,858	\$ 541,372
16,187	22,105	63,543	69,292	9,703	180,830
-	-	-	-	-	99,148
\$ 27,218	\$ 58,705	\$ 146,609	\$ 160,868	\$ 12,561	\$ 821,350
\$ 15,620	\$ 19,562	\$ 58,216	\$ 64,215	\$ 9,502	\$ 167,115
-	8,117	31,360	48,357	1,178	89,012
11,598	31,026	57,033	47,400	1,881	148,938
-	-	-	-	-	-
-	-	-	-	-	144,440
-	-	-	896	-	271,845
11,598	39,143	88,393	96,653	3,059	654,235
\$ 27,218	\$ 58,705	\$ 146,609	\$ 160,868	\$ 12,561	\$ 821,350

Charter Township of Highland

	Special Revenue Funds		
	Road	Fire Capital	Postemployment Benefits
Revenue			
Special assessments	\$ -	\$ -	\$ -
Interest on investments	427	2,309	-
Other revenue	-	-	1,288
Total revenue	427	2,309	1,288
Expenditures			
Debt service	-	-	-
Capital outlay and other	76,336	46,063	-
Total expenditures	76,336	46,063	-
Excess of Revenue Over (Under) Expenditures	(75,909)	(43,754)	1,288
Other Financing Sources -			
Transfers from other funds	40,000	81,000	-
Net Change in Fund Balances	(35,909)	37,246	1,288
Fund Balances - Beginning of year	79,061	233,703	100,000
Fund Balances - End of year	\$ 43,152	\$ 270,949	\$ 101,288

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended December 31, 2004

Capital Projects Funds						Total Nonmajor Governmental Funds
Lakeview Lane Improvement	Woodruff Lake	Kellogg-Taggett	Highland Lake Well	Peninsula Lake Weed Harvesting		
\$ 7,715	\$ 14,857	\$ 26,060	\$ 23,344	\$ 3,536	\$ 75,512	
-	-	-	-	-	2,736	
184	398	760	1,338	7	3,975	
7,899	15,255	26,820	24,682	3,543	82,223	
10,349	12,863	24,331	22,903	-	70,446	
-	-	1,500	72,208	2,365	198,472	
10,349	12,863	25,831	95,111	2,365	268,918	
(2,450)	2,392	989	(70,429)	1,178	(186,695)	
-	-	-	-	-	121,000	
(2,450)	2,392	989	(70,429)	1,178	(65,695)	
14,048	36,751	87,404	167,082	1,881	719,930	
\$ 11,598	\$ 39,143	\$ 88,393	\$ 96,653	\$ 3,059	\$ 654,235	

February 4, 2005

Members of the Township Board
Charter Township of Highland
205 N. John Street
Highland, MI 48357

Dear Board Members:

We have recently completed our audit of the financial statements for the Charter Township of Highland for the year ended December 31, 2004. As a result of our audit, we offer the following observations and comments for your consideration:

The Township has, over the past several years, improved the condition of its financial records, and this year was no exception. In particular, we compliment the Township for the compilation of the capital asset records in preparation for adopting GASB 34.

OVERVIEW OF THE TOWNSHIP'S FINANCIAL CONDITION

The General Fund fund balance at December 31, 2004 is approximately \$950,000 of which \$103,000 has been designated for expenditures in future years. The undesignated portion of fund balance represents approximately 35 percent of 2004 expenditures. In the coming years, the Township will continue to face future revenue reductions as the State's economic growth and associated revenue sharing payments decline. The Township has appropriately placed emphasis in the past on maintaining a sufficient level of fund balance to be able to adjust to expected and unanticipated financial changes, such as you are currently experiencing. An adequate level of fund balance positions the Township to address negative financial changes without disrupting the level of services provided to citizens or the Township's ability to fund future obligations.

NEW REPORTING MODEL – GASB 34

As we have discussed over the last several years, the Governmental Accounting Standards Board issued a new pronouncement that will change the presentation of governmental financial statements. The Township fully implemented GASB 34 beginning January 1, 2004, which included restating the Township's financial information as of that date for these changes. The expected benefits of the new model include improved comparability of financial statements between communities, and a better matching of the current year's revenue sources to the full cost of services provided during that year.

Some of the changes in the model include the following:

- A "Management's Discussion and Analysis" section
- Entity-wide financial statements (balance sheet and operating statements) prepared on a full accrual basis.
- Capital assets and their related depreciation will be reported.

INTERNAL CONTROL CONSIDERATIONS

During the audit, we noted the following regarding the internal control structure:

Payroll

- During our testing, it was noted that the firefighters' wages are maintained and calculated by the fire department in an Excel spreadsheet. A paper copy of the spreadsheet is sent to the accounting department to be processed. Controls would be enhanced if the person submitting the spreadsheet would sign and date it to indicate their approval and that they have verified the calculations. Additionally, we recommend the fire department provide this spreadsheet to the Township in an electronic format so that the accounting department may review the calculations and formulas prior to processing payroll.

Cash and Investments

- As of December 31, 2004, the Township has approximately \$29,000 in performance bonds outstanding. Some of the bonds have been outstanding for several years (dating back as late as 1994). The Township is currently performing an analysis of this account and following up on old bonds that relate to completed projects. It may be possible that some bonds should be taken in to revenue and other bonds should be returned to the original payor.
- During 2004, the Township opened a new cash account for the collection of on-line tax payments. We recommend adding this account to the general ledger and reconciling it monthly along with the other bank accounts.

Bid Approvals

- The Township requires bid approvals for all assets purchased over \$1,000. The Township may want to consider raising this threshold or soliciting telephone bids for the smaller purchases instead of initiating the formal bid process. The threshold at the current level may result in lost time and other costs that outweigh the benefits of the formal bid procedures.

Other Miscellaneous Items:

- Recently, the Township has implemented an ACH (wire transfer) policy. While the Township does have wire transfer procedures in place, it does not include documentation that they have been initiated or approved. In addition, the procedures only apply to bond payments and do not include taxes. We recommend the Township include the preparer and approver signatures on the wire transfer confirmations. Also, the same procedures should be applied to all types of wire transfers.

STATE SHARED REVENUE

State shared revenue accounts for approximately 55% of the Township's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated.

STATE SHARED REVENUE (CONTINUED)

Although sales tax revenue would support an increase to total state shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties statutory revenue sharing (the counties' only source of revenue sharing). Instead, the counties will change their property tax levy date for their operating millage from December to July (beginning in 2005). A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue sharing payments to cities, villages and townships for the State's 2004/2005 fiscal year at the prior year levels. This plan was recently approved by the Michigan legislature and signed by the Governor.

It is generally acknowledged that the State's budget woes will continue for several more years. The Governor recently announced that another \$500 million shortfall exists for the State's 2005/2006 fiscal year budget (the State's 2005/2006 fiscal year budget will be introduced by the Governor in early 2005). Also, during October 2004, the Governor announced that her administration may introduce a significant tax restructuring proposal shortly. Specific details of the proposal have not been formally announced and the impact on significant revenue sources to local governments, such as personal property taxes and revenue sharing, is not known. As a result of the continuing uncertainty with the State's budget situation and other potential developments with changes to State's tax structure, we continue to urge the Township to be very conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

We will continue to update the Township as developments occur.

MUNICIPAL FINANCE ACT REVISIONS – REMINDER

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the Township's year end December 31, 2004 (which means for Highland that filing is due June 30, 2005) and is good for one year thereafter. The Township should consider the need to file a qualifying statement for each component unit.

PROPERTY TAXES

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2004	2.35	1998	2.7%
2003	1.5%	1997	2.8%
2002	3.2%	1996	2.8%
2001	3.2%	1995	2.6%
2000	1.9%	1994	3.0%
1999	1.6%		

PROPERTY TAXES (CONTINUED)

The 2003 inflation factor was used for property taxes levied in the Township's fiscal year ended December 31, 2004. Property taxes are the Township's largest source of revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the Township is performing long-term financial planning.

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the Township. In general terms, if growth on the Township's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the Township to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the Township's existing property tax base was less than inflation, the Headlee Amendment allowed the Township to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the Township is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

For the year ended December 31, 2004, the Township's Headlee maximum property tax rate for its operating levy was 1.0134 mills even though Township Charter would allow the Township to levy 1.4000 mills for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated by a recent study published by the Michigan Municipal League (with the participation of the Michigan Townships Association and the Michigan Association of Counties), due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation), the downward pressure on millage rates will continue particularly given the significant gap that now exists between taxable value and state equalized value.

We would like to thank the Township personnel for the courtesy and assistance extended to us during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Leslie J. Pulver



Brian J. Camiller